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BANCORP TREASURY SERVICES LIMITED

# ECONOMIC ALERT

OCR ANNOUNCEMENT — SEPTEMBER 2019

25 September 2019 | [www.bancorptreasury.com](http://www.bancorptreasury.com)

## “The Official Cash Rate (OCR) remains at 1.00 percent.”

### Why ...

*“New information since the August Monetary Policy Statement did not warrant a significant change to the monetary policy outlook.”*

### And ...

*“The reduction in the OCR this year has reduced retail lending rates for households and businesses, and eased the New Zealand dollar exchange rate.”*

### And ...

*“Employment remains close to its maximum sustainable level but consumer price inflation remains below the 2 percent target mid-point.”*

### Looking ahead ...

*“Global trade and other political tensions remain elevated and continue to subdue the global growth outlook, dampening demand for New Zealand’s goods and services.”*

### And ...

*“[There are] several key uncertainties affecting the outlook for monetary policy, where there was a range of possible outcomes.”*

### And ...

*“There remains scope for more fiscal and monetary stimulus, if necessary, to support the economy and maintain our inflation and employment objectives.”*

### In conclusion ...

*“Keeping the OCR at low levels is needed to ensure inflation increases to the mid-point of the target range, and employment remains around its maximum sustainable level.”*

### And ...

*“New Zealand interest rates can be expected to be low for longer.”*

## Market Implications

After August’s pre-emptive 50 basis points OCR cut and with subsequent domestic data in line with the Reserve Bank’s forecasts, market consensus was for no change to the OCR but the Monetary Policy Committee (“MPC”) to remain open to further OCR cuts. And that is exactly what the MPC delivered.

Despite market consensus for an unchanged OCR, some were disappointed — specifically those hoping for another surprise cut. The New Zealand dollar and local swap rates were a little higher after the OCR announcement because of that disappointment. However, the moves

were slight because those who were disappointed were in an overwhelming minority.

Looking further ahead, the MPC is clearly monitoring key domestic and offshore data releases and market developments, the exchange rate, inflation expectations and future pricing for the OCR against its forecasts.

The inference from this OCR announcement is that everything is tracking along nicely but the risks remain to the downside. We will have to wait for the November *Monetary Policy Statement* to find out what it all means for the Reserve Bank’s current OCR forecasts. That will give the rest of the world more time to haul in the perceived benefits (from the Reserve Bank’s perspective) to the local exchange rate and swap rates from the pre-emptive 50 basis points OCR cut in August.

## Comment

Further OCR cuts may be data and event dependent but the MPC is adamant that the OCR and local interest rates will be “low for longer.”

Interestingly, our central bank is happily sitting alongside other central banks (specifically, most developed nations’ central banks) in unashamedly expressing satisfaction that a lower official interest rate has led to a lower exchange rate.